

MPSERS 2006-07 Accounting Issue

Assumptions: Per Conversations with the Senate Fiscal Agency, Department of Management and Budget and Office of Retirement Services Staff, these are the assumptions used for Public Act 6 of 2007:

- On the State's 2006-07 Financial Statements there will be a reduction in State School Aid Expenditures of \$262 million and a reduction in revenues to the Public School Employees Retirement System (PSERS) fund of \$276 million.
- The Office of Retirement Services will issue a credit to districts for \$276 Million (\$262 Million State and \$14 Million Federal). These amounts include the \$86 Million Interest on Unfunded Liability.
- The credit issued on behalf of the district FOR NON-FEDERAL salaries shall be considered to be a payment on behalf of the district for the purpose of calculating payments under Section 22b for 2006-07. (In other words, the district will be reporting state revenue without receiving cash through the State Aid payment system.)
- The language is silent as to the nature of the credit for federal wages.
- The calculation of credits issued is based on the *Total Statewide Payroll for all districts and intermediate districts for the State Fiscal Year ending September 30, 2006*.
- Kerrie Vanden Bosch - Office of Retirement Service verified:
 - The credit will be given toward 2006-07 contributions.
 - The effective retirement rate does not change. It remains at 17.74% for fiscal year 2006-07.
 - The federal portion of the credit should be considered a credit against current year federal programs.
 - The credit is not a liquidation of excess reserves.

Statement of Problem: Determine an acceptable accounting treatment for the MPSERS "Credit" and the reduction in cash received from the State Aid Fund.

Because the State Aid Act is specific as to the nature of the credit for non-federal wages, there will be a non-cash accounting transaction for the non-federal portion of the credit with no related reduction in actual non-federal retirement expenditures or State Aid Revenue for fiscal year 2006-07.

The Federal wages present a challenge in that the State Aid Act is silent as to the nature of that credit. Therefore, we must follow guidance given in OMB Circular A-87, Appendix B – Selected Items of Cost Related to Pension Plan Costs:

The federal government shall receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the government unit in the form of a refund, withdrawal, or other credit.

Because the wage base will be different in the school districts' 2006-07 fiscal year than it was in 2005-06 and PSERS has already determined a "credit dollar amount" for each district; districts implement the least disruptive method to distribute the expenditure credits to the federal grant retirement expenditures on the 2006-07 financial statements.

Accounting Transactions for an Example Public School District with an \$11,000 total MPSERS credit (\$10,000 non-federal and \$1,000 federal)

1) To Account for the **Non-Federal** wage portion of PSERS credit

Debit /asset (192 -Prepaid expenditure) \$10,000 *

Credit revenue (311-State Unrestricted Revenue Foundation Allowance) \$10,000

* Recording this transaction **will not** affect individual retirement expenditures for non-federal wages

2) To Account for the **Federal** wage portion of PSERS credit

Debit asset (192 -Prepaid expenditure) \$ 1,000

Credit Various 2006-07 Federal Grant Program Exp. in Proportion to the Total Federal Credit \$1,000*

(For example, if a district has 2006-07 Title I wages of \$10,000 and total 2006-07 federal wages of \$100,000; 10% (\$100) of the federal credit should be credited to 2006-07 Title I retirement costs.)

* Recording this transaction **will** affect individual retirement expenditures for federal wages

3) To liquidate the credit in future PSERS payments

Debit actual expenditure functions/objects for full (.1774) \$ 12,000

Credit asset (192 -Prepaid expenditure) \$11,000

Credit Cash \$1,000

Section 388.1747

THE STATE SCHOOL AID ACT OF 1979 (EXCERPT) Act 94 of 1979

388.1747 Allocations to public school employees' retirement system.

Sec. 147.

(1) The allocation for 2006-2007 for the public school employees' retirement system pursuant to the public school employees retirement act of 1979, 1980 PA 300, MCL 38.1301 to 38.1408, shall be made using the entry age normal cost actuarial method and risk assumptions adopted by the public school employees retirement board and the department of management and budget. The annual level percentage of payroll contribution rate is estimated at 17.74% for the 2006-2007 state fiscal year. The portion of the contribution rate assigned to districts and intermediate districts for each fiscal year is all of the total percentage points. This contribution rate reflects an amortization period of 30 years for 2006-2007. The public school employees' retirement system board shall notify each district and intermediate district by February 28 of each fiscal year of the estimated contribution rate for the next fiscal year.

(2) Upon enactment of legislation reducing pension contributions of each district or intermediate district to the public school employees' retirement system that would otherwise be due from that district or intermediate district, the director of the department of management and budget shall direct the public school employees' retirement system to issue credits for the fiscal year ending September 30, 2007 not to exceed an aggregate of \$276,000,000.00. The credits shall be used to meet the required pension obligations of each district or intermediate district and shall reduce the amount of pension contributions otherwise due from that district or intermediate district based on the original contribution rate. The portion of a credit issued on behalf of a district related to nonfederal wages as reported to the public school employees' retirement system for the state fiscal year ending September 30, 2006 shall be considered to be a payment on behalf of the district for the purposes of calculating payments made under section 22b for 2006-2007. The portion of a credit issued on behalf of an intermediate district related to nonfederal wages as reported to the public school employees' retirement system for the state fiscal year ending September 30, 2006 shall be considered to be a payment on behalf of the intermediate district for the purpose of calculating payments made under section 81 for 2006-2007. The portion of credits issued by the public school employees' retirement system attributable to nonfederal wages in aggregate shall equal the appropriation under section 11(6). The total credit provided under this subsection for a particular district or intermediate district shall be determined based on that district's or intermediate district's percentage of the total statewide payroll for all districts and intermediate districts for the state fiscal year ending September 30, 2006.

History: Add. 1992, Act 148, Eff. Oct. 1, 1992 ;-- Am. 1993, Act 175, Eff. Oct. 1, 1993 ;-- Am. 1993, Act 336, Eff. Oct. 1, 1994 ;-- Am. 1994, Act 283, Eff. Oct. 1, 1994 ;-- Am. 1995, Act 130, Eff. Oct. 1, 1995 ;-- Am. 1996, Act 180, Imd. Eff. Apr. 19, 1996 ;-- Am. 1996, Act 300, Eff. Oct. 1, 1996 ;-- Am. 1997, Act 93, Eff. Oct. 1, 1997 ;-- Am. 1997, Act 142, Imd. Eff. Nov. 19, 1997 ;-- Am. 1998, Act 339, Imd. Eff. Oct. 13, 1998 ;-- Am. 1999, Act 119, Imd. Eff. July 20, 1999 ;-- Am. 2000, Act 297, Imd. Eff. July 26, 2000 ;-- Am. 2001, Act 121, Imd. Eff. Sept. 28, 2001 ;-- Am. 2002, Act 191, Imd. Eff. Apr. 26, 2002 ;-- Am. 2002, Act 521, Imd. Eff. July 25, 2002 ;-- Am. 2003, Act 158, Eff. Oct. 1, 2003 ;-- Am. 2004, Act 351, Eff. Oct. 1, 2004 ;-- Am. 2005, Act 155, Eff. Oct. 1, 2005 ;-- Am. 2006, Act 342, Eff. Oct. 1, 2006 ;-- Am. 2007, Act 6, Imd. Eff. Apr. 30, 2007

Compiler's Notes: Enacting section 3 of Act 521 of 2002 provides: "Enacting section 3. This amendatory act does not take effect unless the tax on cigarettes under the

tobacco products tax act, 1993 PA 327, MCL 205.421 to 205.436, is increased by 50 cents or more per pack of cigarettes (25 mills per cigarette) effective on or before September 30, 2002 and the revenue from not less than 20 cents per pack of cigarettes (10 mills per cigarette) of that increase is dedicated by law for deposit into the state school aid fund established by section 11 of article IX of the state constitution of 1963."For legislation increasing tax on cigarettes and dedicating a portion of increased revenue to state school aid fund, see 2002 PA 503, Imd. Eff. July 18, 2002.Enacting section 1 of Act 351 of 2004 provides: "Enacting section 1. In accordance with section 30 of article IX of the state constitution of 1963, total state spending in this amendatory act from state sources for fiscal year 2004-2005 is estimated at \$11,173,900,000.00 and state appropriations to be paid to local units of government for fiscal year 2004-2005 are estimated at \$11,113,650,400.00."Enacting section 1 of 2005 PA 155 provides: "Enacting section 1. In accordance with section 30 of article I of the state constitution of 1963, total state spending in this amendatory act and in House Bill No. 4831 of the 93rd Legislature from state sources for fiscal year 2005-2006 is estimated at \$11,364,814,000.00 and state appropriations to be paid to local units of government for fiscal year 2005-2006 are estimated at \$11,341,913,100.00."Enacting section 1 of Act 342 of 2006 provides: "Enacting section 1. (1) In accordance with section 30 of article I of the state constitution of 1963, total state spending in this amendatory act from state sources for fiscal year 2006-2007 is estimated at \$11,682,508,200.00 and state appropriations to be paid to local units of government for fiscal year 2006-2007 are estimated at \$11,536,597,200.00.(2) In accordance with section 30 of article I of the state constitution of 1963, total state spending from state sources for fiscal year 2005-2006 in this amendatory act and 2005 PA 155 is estimated at \$11,308,027,200.00 and state appropriations to be paid to local units of government for fiscal year 2004-2005 are estimated at \$11,285,376,300.00."